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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY
September 18, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, D. C. 20554

Re: Ex Parte Presentation - CC Docket 96-45
Federal - State Joint Board on Universal Service

Dear Mr. Caton:

On Wednesday, September 18, 1996, Mr. M. Lemler, Mr. P. Malandrakis and I met with Mr. D. Gonzalez, Legal Adviser to Commissioner Chong, to discuss AT&T's proposal for Universal Service and Access Reform. The attached material was used as the basis for the presentation.

In accordance with Section 1.1206(a)(1) of the Commission's Rules, two (2) copies of this Notice are being filed with the Secretary of the FCC on the next business day.

Sincerely,
Bruce K. Cox

Attachment

cc: Mr. D. Gonzalez

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AT&T PROPOSAL
FOR UNIVERSAL SERVICE and ACCESS REFORM

September 18, 1996

UNIVERSAL SERVICE and ACCESS REFORM ARE INTEGRALLY LINKED

Universal Service Principles (*Section 254*)

- Universal service subsidies should be based on same TELRIC standard as unbundled network elements
- All telecommunications service providers contribute to universal service support in an equitable and nondiscriminatory manner
- Universal service support should be explicit and sufficient for intended purpose
- Any carrier designated as eligible would be entitled to universal service support
 - Competitive LECs (CLECs) who buy/lease unbundled network elements from Incumbent LECs (ILECs) should be eligible

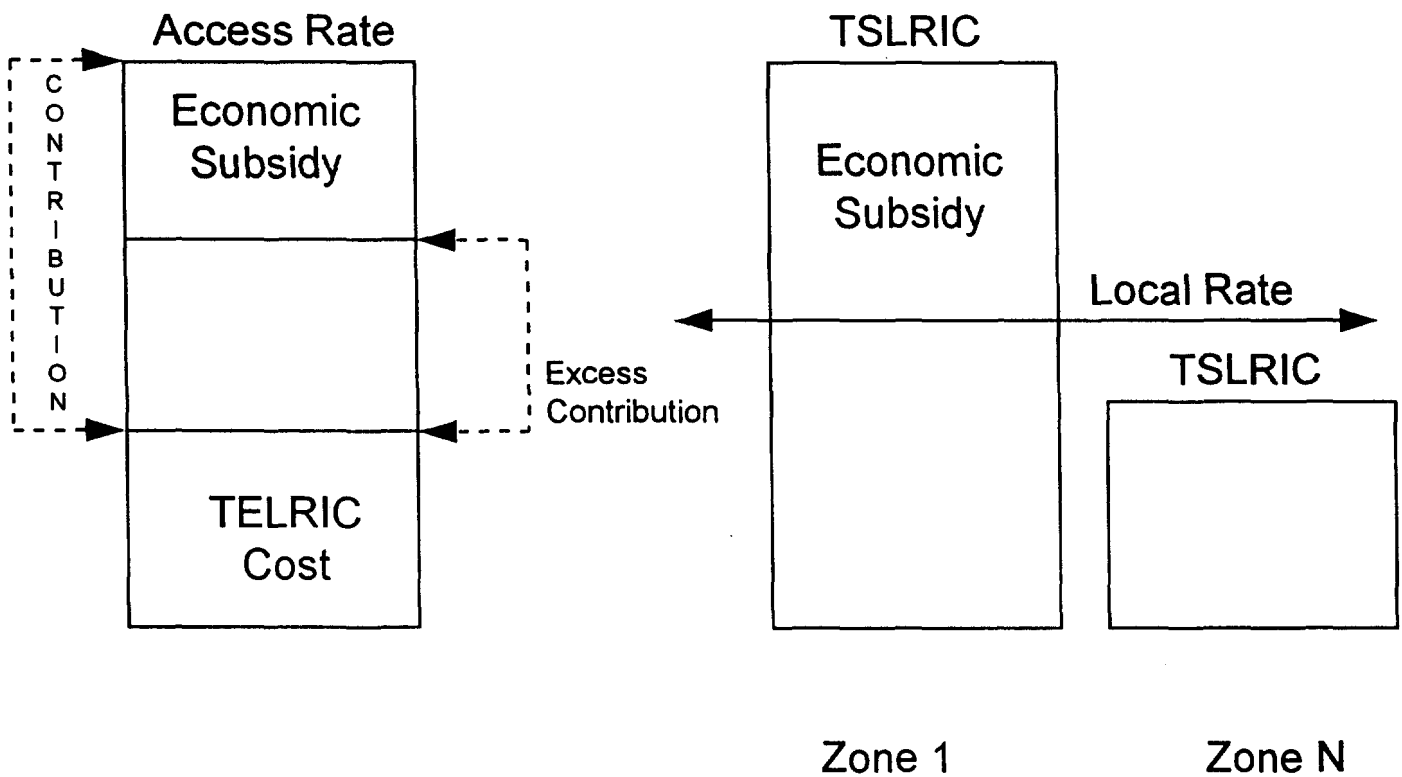
Access Reform Principles

- Access Charge and Section 251 structures must converge
- Contributions must be removed from all carrier-to-carrier payments
 - Access charge is another form of carrier-to-carrier payments

Paradigm Change

Carrier Access

Basic Local Service
(End User)



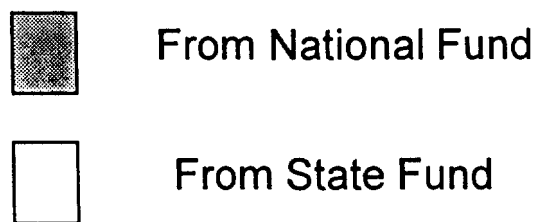
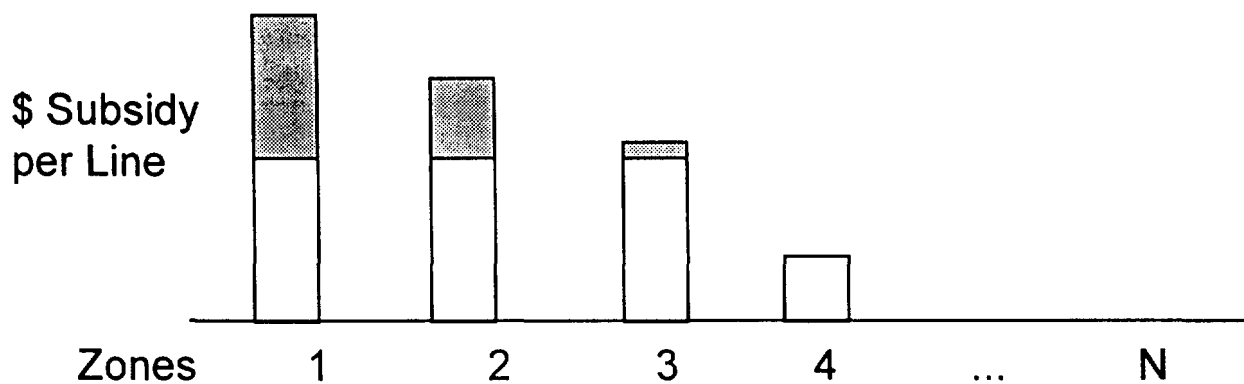
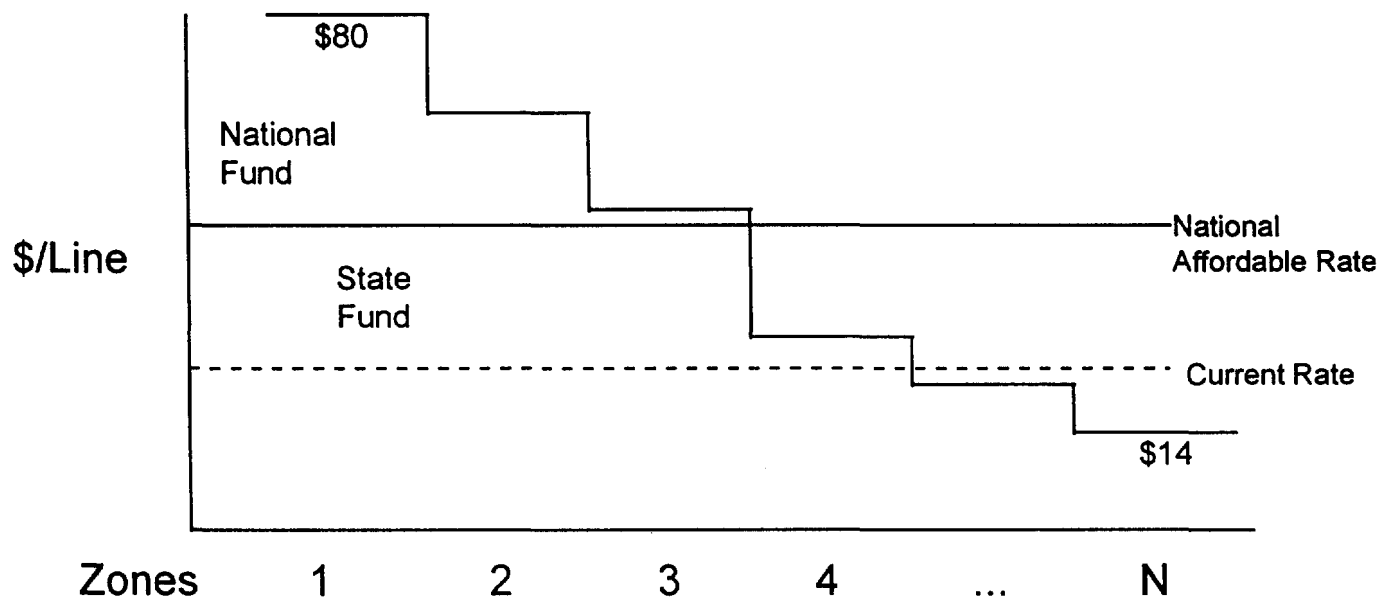
**There is a direct linkage between the
 TELRIC prices of the unbundled network
 elements and the subsidy per line which
 determines the size of the fund.
 (Illustrative)**

UNE*: LOOP (Zones) 1 to N	SWITCH End Office	TRANSMISSION	SWITCH Tandem
TELRIC \$75....\$9	.2 ¢ - .4 ¢	.25 ¢	.15 ¢

TSLRIC of Local Service	=	zone 1...zone N
Line:		\$75. \$ 9.
Port:]	
Switch Usage:		\$ 3. \$ 3.
Transmission:		
Signaling:		
SUBTOTAL		<u>\$78.</u> <u>\$ 12.</u>
Retail End User Cost		<u>2.</u> <u>2.</u>
TOTAL		<u>\$80.</u> <u>\$14.</u>

* UNE: Unbundled Network Element

Determination of the Universal Service Fund from the TSLRIC of Local Service



Summary of Results (Hatfield Estimates)

	<u>RBOC</u>	<u>Large LECs</u>	<u>Total</u>	<u>Small Rural LECs</u>
<u>Access Difference</u>				
1 Current Access \emptyset Rate per min.	2.70 cents	4.41 cents	3.06 cents	6.00 cents+
2 TELRIC Access Rate per min.	.40 cents	.40 cents	.40 cents	.40 cents
	Billions	Billions	Billions	Billions
3 Access Contribution: (L1 - L2) X min.	\$10.21	\$4.81	\$15.02	
<u>Economic Subsidy</u>				
4 National Fund	\$1.84	\$1.49	\$3.33	\$1.82*
5 State Fund	\$0.95	\$0.84	\$1.79	
6 Lifeline	\$0.12	\$0.02	\$0.14	
7 Subtotal ** (L4+L5+L6)	\$2.91	\$2.35	\$5.26	\$1.82
8 <u>Excess Contribution***</u> (L3-L7)	\$7.30	\$2.46	\$9.76	0

\emptyset This represents the average interstate/intrastate access rate.

* This includes the current HCF for small rural LECs.

** Schools/Libraries would require additional funds to the USF.

*** This could be partly offset by applying TELRIC access prices to ESP.

Summary of Results (Proxy Estimates)

	<u>RBOC</u>	<u>Large LECs</u>	<u>Total</u>	<u>Small Rural LECs</u>
<u>Access Difference</u>				
1 Current Access ø Rate per min.	2.70 cents	4.41 cents	3.06 cents	6.0 cents+
2 Proxy Access Rate per min.	.63 cents	.63 cents	.63 cents	.63 cents
	Billions	Billions	Billions	Billions
3 Access Contribution: (L1 - L2) X min.	\$9.17	\$4.16	\$13.33	
<u>Economic Subsidy</u>				
4 National Fund	\$2.20	\$1.93	\$4.13	\$1.70*
5 State Fund	\$1.17	\$0.88	\$2.05	
6 Lifeline	\$0.12	\$0.02	\$0.14	
7 Subtotal ** (L4+L5+L6)	\$3.49	\$2.83	\$6.32	\$1.70
8 <u>Excess Contribution***</u> (L3-L7)	\$5.68	\$1.33	\$7.01	0

ø This represents the average interstate/intrastate access rate.

* This includes the current HCF for small rural LECs.

** Schools/Libraries would require additional funds to the USF.

*** This could be partly offset by applying TELRIC access prices to ESP.

CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$7.01\text{B} \times .80 - \$1.0\text{B}(\text{ESP})$

\$4.6 B

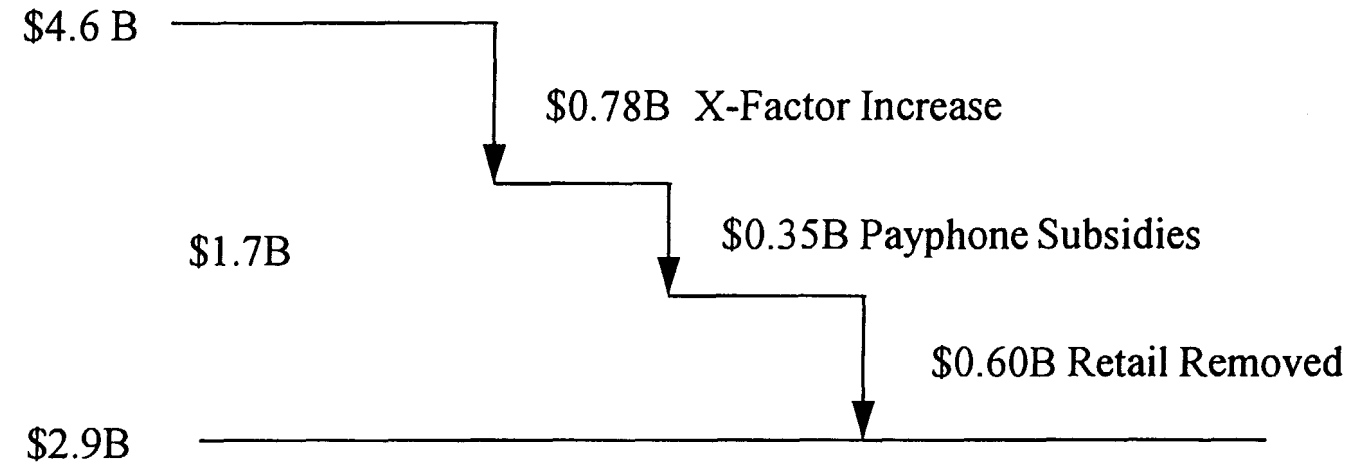
\$0.78B X-Factor Increase

\$1.7B

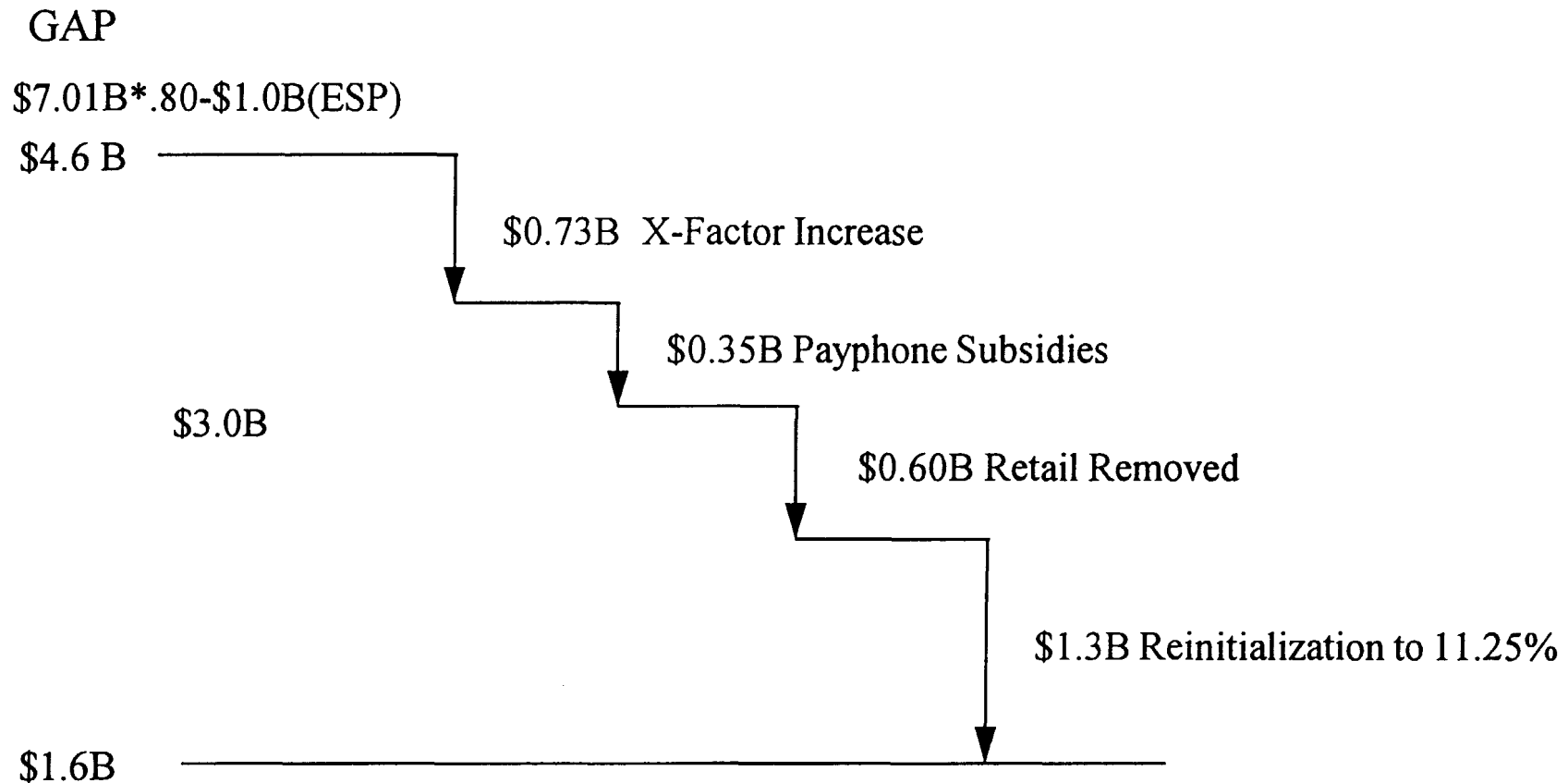
\$0.35B Payphone Subsidies

\$0.60B Retail Removed

\$2.9B



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$7.01\text{B} \times .80 - \$1.0\text{B}(\text{ESP})$

\$4.6 B

\$0.71B X-Factor Increase

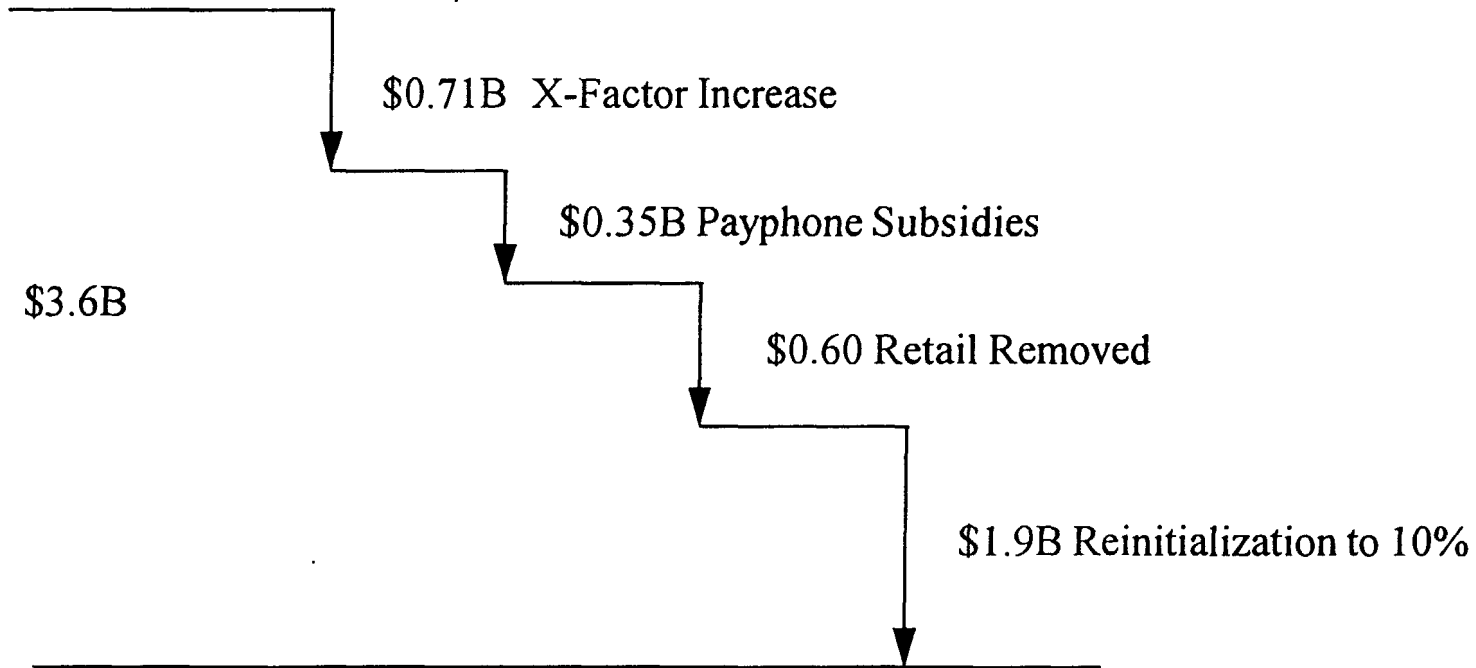
\$0.35B Payphone Subsidies

\$0.60 Retail Removed

\$1.9B Reinitialization to 10%

\$3.6B

\$1.0B



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$9.76 \times .80 - 1.0(\text{ESP})$

\$6.8B

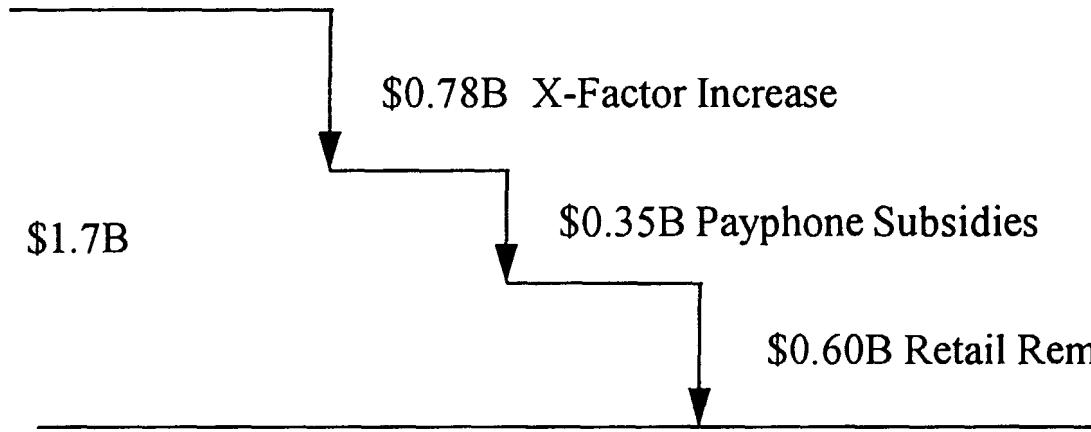
\$0.78B X-Factor Increase

\$1.7B

\$0.35B Payphone Subsidies

\$0.60B Retail Removed

\$5.1B



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$9.76 \times .80 - 1.0(\text{ESP})$

\$6.8 B

\$0.73B X-Factor Increase

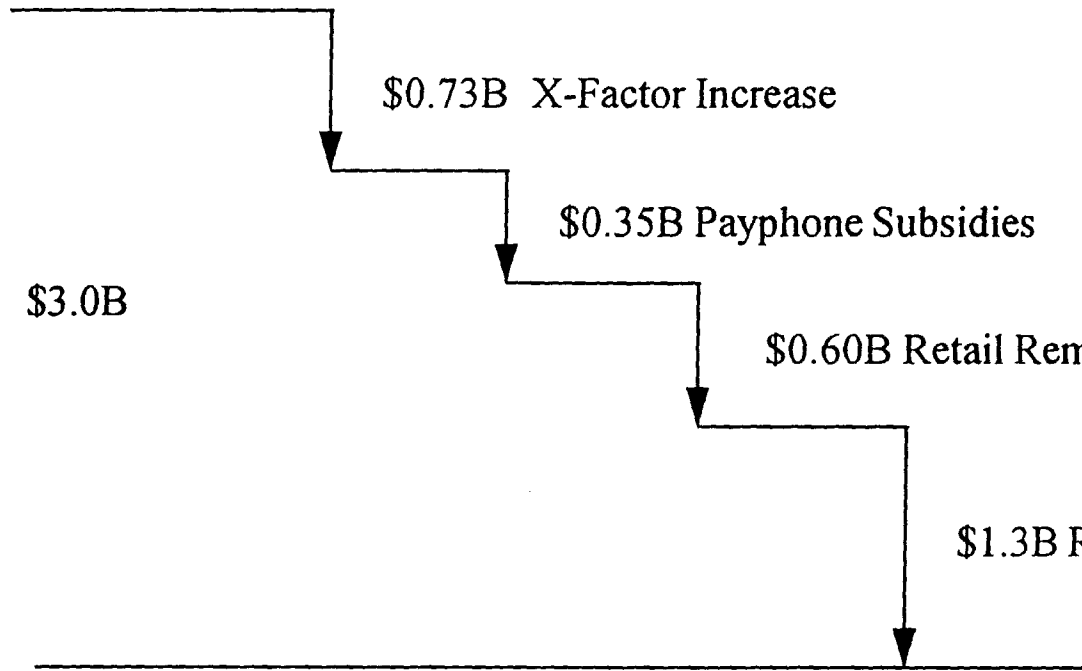
\$0.35B Payphone Subsidies

\$0.60B Retail Removed

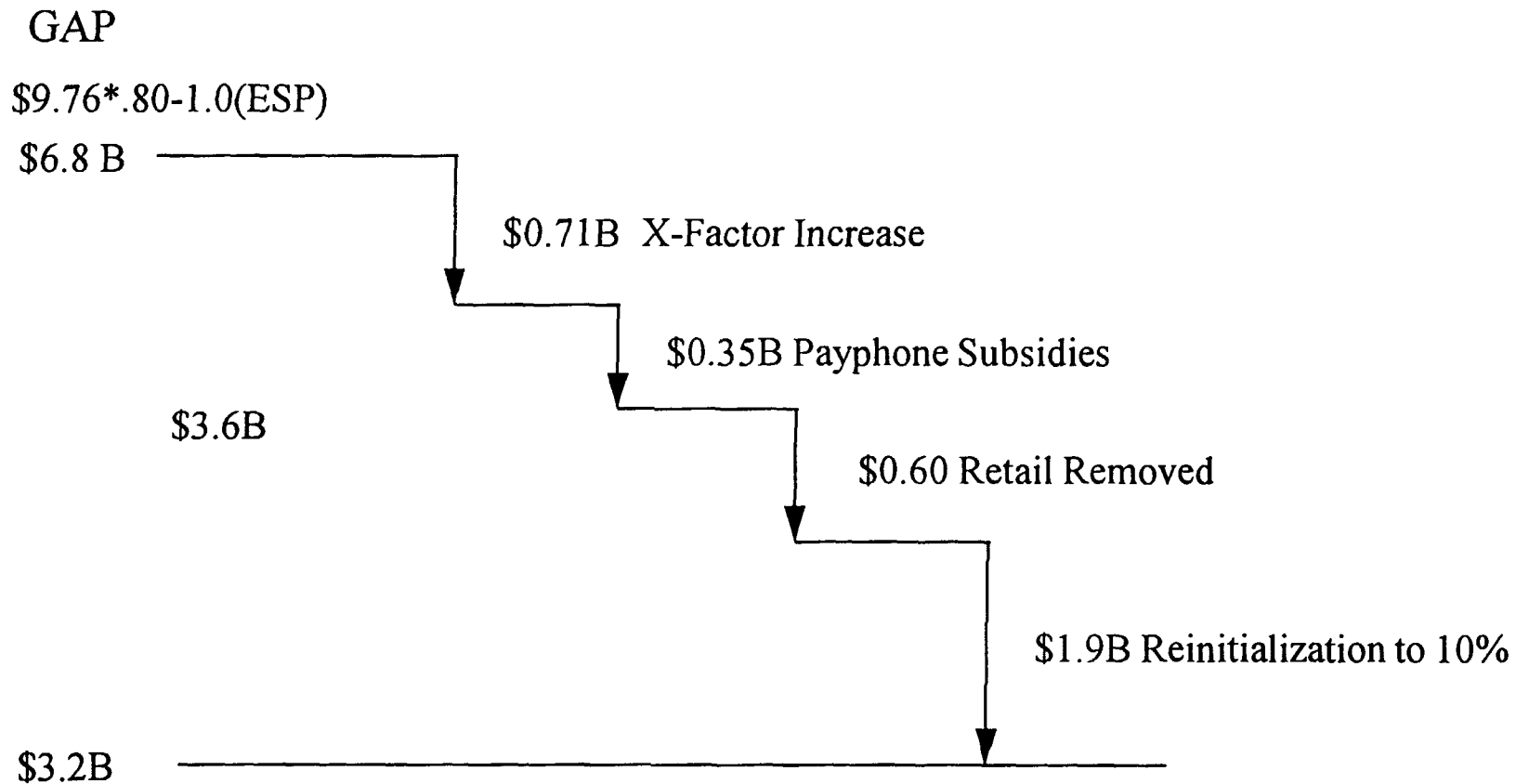
\$1.3B Reinitialization to 11.25%

\$3.0B

\$3.8B



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES



PRICE CAP COMPANIES-1995 FORM 492 RESULTS

COMPANY	REVENUE	EXP/TAX	NET RETURN	AM	R/R	RETURN@ 11.25%	EXCESS	RETURN@ 10.00%	EXCESS
AMERITECH	\$2,314,807	\$1,795,838	\$518,169	\$3,093,308	18.78%	\$347,897	\$258,351	\$308,331	\$317,837
BELL ATLANTIC	\$2,978,629	\$2,371,865	\$606,964	\$4,420,570	13.73%	\$497,314	\$166,136	\$442,057	\$249,859
BELLSOUTH	\$3,341,690	\$2,813,048	\$728,644	\$4,627,473	15.75%	\$520,591	\$315,232	\$482,747	\$402,874
NYNEX	\$3,202,087	\$2,752,440	\$449,647	\$3,705,819	12.13%	\$418,905	\$49,810	\$370,582	\$118,798
PACIFIC BELL	\$1,688,700	\$1,318,024	\$370,676	\$2,451,590	15.12%	\$275,804	\$143,748	\$245,159	\$180,177
NEVADA BELL	\$53,801	\$41,483	\$12,118	\$70,221	17.28%	\$7,900	\$6,391	\$7,022	\$7,721
SOUTHWESTERN BELL	\$2,091,808	\$1,843,498	\$448,308	\$3,351,988	13.37%	\$377,098	\$107,893	\$335,189	\$171,378
USWEST	\$2,425,710	\$1,980,655	\$485,055	\$4,007,152	11.81%	\$450,805	\$21,582	\$400,715	\$87,485
ROCHESTER	\$47,821	\$35,388	\$12,253	\$63,432	19.32%	\$7,138	\$7,758	\$8,343	\$8,957
FRONTIER	\$25,877	\$18,731	\$7,248	\$33,083	21.90%	\$3,722	\$5,340	\$3,308	\$5,968
CENTEL-FLA	\$54,083	\$42,112	\$11,953	\$69,517	17.19%	\$7,821	\$8,281	\$8,952	\$7,578
CENTEL-ILLINOIS	\$34,895	\$28,084	\$6,801	\$34,780	19.55%	\$3,913	\$4,378	\$3,478	\$5,035
CENTEL-NEVADA	\$68,407	\$48,170	\$20,237	\$99,057	20.43%	\$11,144	\$13,777	\$9,908	\$15,853
CENTEL-NC	\$27,734	\$21,404	\$6,330	\$41,220	15.36%	\$4,637	\$2,583	\$4,122	\$3,345
CENTEL-TEXAS	\$26,584	\$19,088	\$7,508	\$34,420	21.81%	\$3,872	\$5,509	\$3,442	\$8,181
CENTEL-VIRGINIA	\$41,230	\$31,800	\$9,430	\$59,408	15.87%	\$6,884	\$4,181	\$5,941	\$5,287
UNITED-FLA	\$215,011	\$158,541	\$56,470	\$293,871	19.22%	\$33,080	\$35,489	\$29,387	\$41,035
UNITED-INDIANA	\$38,139	\$28,575	\$7,584	\$37,214	20.33%	\$4,187	\$5,117	\$3,721	\$5,822
UNITED-MIDWEST	\$128,078	\$94,498	\$33,582	\$171,399	19.59%	\$19,282	\$21,888	\$17,140	\$24,912
UNITED-N.J.P.A.	\$72,808	\$58,548	\$18,060	\$98,081	18.37%	\$11,034	\$7,615	\$9,808	\$9,473
UNITED-NC	\$143,407	\$110,787	\$32,810	\$183,333	17.77%	\$20,847	\$18,125	\$18,353	\$21,801
UNITED-OHIO	\$87,127	\$71,087	\$16,030	\$100,587	15.93%	\$11,317	\$7,141	\$10,080	\$9,048
UNITED-NORTHWEST	\$33,813	\$22,348	\$11,284	\$32,914	34.22%	\$3,703	\$11,458	\$3,291	\$12,080
UNITED-SOUTHEAST	\$59,729	\$44,538	\$15,193	\$79,734	19.05%	\$8,970	\$9,429	\$7,873	\$10,839
SPRINT LOCAL	\$1,028,835	\$777,603	\$251,032	\$1,335,746	18.79%	\$150,271	\$152,688	\$133,575	\$177,988
SNET	\$332,014	\$276,732	\$55,282	\$477,342	11.58%	\$53,701	\$2,395	\$47,734	\$11,438
GTE			\$534,918	\$4,430,273	12.07%	\$498,408	\$55,322	\$443,027	\$139,228
TOTAL			\$4,481,314	\$32,087,995	13.91%	\$3,607,649	\$1,293,431	\$3,208,800	\$1,900,780